#### **UNITED STATES**

SECURITIES AND EXCHANGE COMMISSION EXCHANGE COMMISSION Washington, D.C. 20549

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#### ANNUAL AUDITED REPORT **FORM X-17A-5** PART III

**OMB APPROVAL** 

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SEC FILE NUMBER 8-37809

DIVISION OF MA	RKET REGULATION  Information Required of Broker  Securities Exchange Act	ACING PAGE rs and Dealers Pursu	ant to Section 17 of	the
REPORT FOR	R THE PERIOD BEGINNING		AND ENDING	10/31/10 MM/DD/YY
	A. REGISTRA	ANT IDENTIFICA	TION	
NAME OF BI	ROKER-DEALER:			
CALLAH	IAN FINANCIAL SERVICES, IN	IC,		OFFICIAL USE ONLY
	F PRINCIPAL PLACE OF BUSINI	•	. Box No.)	FIRM ID. NO.
1001 CO	NNECTICUT AVE. NW; SUITE 1 (1)	No. and Street)		
WASHIN	NGTON	DC		20036
(City)		(State)		(Zip Code)
NAME AND	TELEPHONE NUMBER OF PERS	SON TO CONTACT	IN REGARD TO TH	IS REPORT
Jay Johns		(202) 223-3920		
	(Area	Code - Telephone No	o.)	
-	B. ACCOUNT	ANT IDENTIFIC	ATION	
INDEPENDE	NT PUBLIC ACCOUNTANT wh	ose opinion is contai	ned in this Report*	
Doeren N				
	·	ıal, state last, first, mid	·	
755 West	t Big Beaver Rd., Ste. 2300 (Address)	Troy (City)	Michigan (State)	48084-0231 (Zip Code)
CHECK ONI	,	(23)	(2000)	(mp como)
$\boxtimes$	Certified Public Accountant		188	HARA HARI BARKA HARA KINI BAKAR KINI BIRI KARI
	Public Accountant			
	Accountant not resident in Uni	ited States or any of i	its possession	11023034
FOR OF	FICIAL USE ONLY			
L		<del></del>		

\*Claims for exemption from the requirement that the annual report be covered by the opinion of an independent public accountant must be supported by a statement of facts and circumstances relied on as the basis for the exemption. See section 240.17a-5(e)(2).

> Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB control number.

SEC 1410 (06-02)

#### **OATH OR AFFIRMATION**

finar SERV the c	ncial sta <u>VICES,</u> compan	hnson, swear (or affirm) that, to the best of my knowledge and belief the accompanying atement and supporting schedules pertaining to the firm of <u>CALLAHAN FINANCIANINCLANINC</u>
	019	
70	(A#)	The E Cahe
111	17/7/	Signature
	The	Notary Public  Executive Vice President  Title  SHASHI BHAGAT
This	report*	* contains (check all applicable boxes):  **COTARY PUBLIC DISTRICT OF COLUMBIA My Commission Expires January 1, 201
$\boxtimes$	(a)	Facing page.
$\boxtimes$	(b)	Statement of Financial Condition.
$\times$	(c)	Statement of Income (Loss).
X	(d)	Statement of Changes in Financial Condition (Statement of Cash Flows).
$\boxtimes$	(e)	Statement of Changes in Stockholders' Equity or Partners' or Sole Proprietor's Capital.
	<b>(f)</b>	Statement of Changes in Liabilities Subordinated to Claims or Creditors.
$\boxtimes$	(g)	Computation of Net Capital.
$\boxtimes$	(h)	Computation for Determination of Reserve Requirements Pursuant to Rule 15c3-3.
	(i)	Information Relating to the Possession or Control Requirements Under Rule 15c3-3.
	(j)	A Reconciliation, including appropriate explanation, of the Computation of Net Capita Under Rule 15c3-1 and the Computation for Determination of the Reserve Requirement Under Exhibit A of Rule 15c3-3.
	(k)	A Reconciliation between the audited and unaudited Statements of Financial Condition with respect to methods of consolidation.
X	(1)	An Oath or Affirmation.
	(m)	A copy of the SIPC Supplemental Report.
	(n)	A report describing any material inadequacies found to exist or found to have existed since the date of the previous audit.
$\times$	(o)	Independent Auditors' Report on Internal Control Required by SEC Rule 17a-5

<sup>\*\*</sup> For conditions of confidential treatment of certain portions of this filing, see section 240.17a-5(e)(3).

FINANCIAL STATEMENTS

OCTOBER 31, 2010

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::: * (.) +,:: ; <b>S</b>	UPPLEMENTARY INFORMATION	POTARSTS	
erfolget von de de seen gestelde die seen gestelde	Computation of net capital for brokers and dealer pursuant to Rule 15c3-1 under the Securities Exchange	e , 🚈 : 💮 :	16
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#### **Independent Auditor's Report**

To the Board of Directors and Stockholder of Callahan Financial Services, Inc.

We have audited the accompanying balance sheet of Callahan Financial Services, Inc. (the "Company"), as of October 31, 2010, and the related statements of income, changes in stockholder's equity and cash flows for the year then ended that you are filing pursuant to Rule 17a-5 under the Securities Exchange Act of 1934. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of Callahan Financial Services, Inc. as of October 31, 2009, were audited by other auditors whose report dated December 28, 2009, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Callahan Financial Services, Inc. as of October 31, 2010, and the results of its operations and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Burgara Markatan

#### **DOEREN MAYHEW**

Our audit of the 2010 financial statements was conducted for the purpose of forming an opinion on the basic 2010 financial statements taken as a whole. The supplemental schedules of the Company as of October 31, 2010: Computation of Net Capital for Brokers and Dealers Pursuant to Rule 15c3-1 under the Securities Exchange Act of 1934 and Computation for Determination of Reserve Requirements for Brokers and Dealers Pursuant to Rule 15c3-3 under the Securities Exchange Act of 1934 are presented for the purpose of additional analysis and are not a required part of the basic financial statements, but are supplementary schedules required by Rule 17a-5 under the Securities Exchange Act of 1934. Such schedules have been subjected to the auditing procedures applied in the audit of the basic 2010 financial statements and, in our opinion, are fairly stated in all materials respects in relation to the basic 2010 financial statements taken as a whole.

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December 29, 2010 Troy, Michigan

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#### **BALANCE SHEETS**

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	1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1		ASSETS		aude of the obs South the book
	• , •	e de la companya de l	o tanàna amin'ny faritr'i North- North Della Common dia 1920. I Belli Della Common dia 1920.	October	
Cash and cash e	equivalents (note able	s 1 and 3)	en legazine e enzer La La ende an energia	\$ 205,832 \$	61,645
Related party		**		29,442	19,904
Other		3.		8,000	-
	mited liability lings	- ,	i ali a di	10,100	10,100
	nership (note 2)		,	(10,100) <sub>1 16</sub>	24,549
Other assets				3,162	3,139
To	tal assets			\$ 246,436 \$	119,337

#### LIABILITIES AND STOCKHOLDER'S EQUITY

	ties

Account payable - related party (note 4)	\$ 35,162	\$ -
Accrued expenses	 18,455	22,153
Total liabilities	53,617	22,153
Stockholder's Equity		
Capital stock, no par value; \$150 stated value; 100 shares		
authorized, issued and outstanding	15,000	15,000
Additional paid-in capital	403,656	376,356
Accumulated deficit	 (225,837)	 (294,172)
Total stockholder's equity	 192,819	 97,184
Total liabilities and stockholder's equity	\$ 246,436	\$ 119,337

#### STATEMENTS OF INCOME

			Ended	
		Octo	ber 31,	•
	<del></del>	2010		2009
Income				
Earnings (loss) in limited partnership	\$	(10,100)	\$	24,549
Reimbursements for operating expenses (note 4)	. *	618,156	*	566,041
Interest income		123,047		2,500
Total income		731,103	* *	593,090
Expenses		garanta.	;	
Contract services		584,113		523,378
Regulatory and compliance		18,072		16,777
Other		15,972		25,886
		Barren of the		
Total expenses		618,157		566,041
		25.	ť i	
Income Before Income Taxes		112,946		27,049
Income Taxes		27,300		9,738
Net Income	\$	85,646	\$	17,311

# STATEMENTS OF STOCKHOLDER'S EQUITY FOR THE YEARS ENDED OCTOBER 31, 2010 AND 2009

	Number of Shares	Capital Stock	Additional Paid-in Capital		Total Stockholder's Equity
Balance - November 1, 2008	100	\$ 15,000	\$ 366,618	\$ (297,515)	\$ 84,103
Cash dividends paid	-	-	**	- m(13,968)	(13,968)
Capital contribution	-	-	9,738	-	9,738
Net income	_	-		17,311	17,311
Balance - October 31, 2009	100	15,000	376,356	(294,172)	97,184
Cash dividends paid	-	-	-	(17,311)	(17,311)
Capital contribution	-		27,300	n o Pasto de <del>t</del> at	27,300
Net income	····	-		85,646	85,646
Balance - October 31, 2010	100	\$ 15,000	\$ 403,656	\$ (225,837)	\$ 192,819

#### STATEMENTS OF CASH FLOWS

 $(x_1, \dots, x_n) \in \mathbb{R}^n \times \mathbb{R$ 

	Year Ended October 31,			
		2010		2009
Cash Flows From Operating Activities:	,	1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1	1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1	
Net income	\$	85,646	\$	17,311
Adjustments:	è		4 - 14 - 1	•
Loss (earnings) from limited partnership		10,100		(24,549)
Changes in assets and liabilities:	,		isii .	` ,
Decrease (increase) in accounts receivable				
Related party		(9,538)	. 1	12,918
Other with the second of the s	A second	(8,000)	4.	-
Decrease (increase) in other assets	•	(23)	1000	9,189
Increase in accounts payable related party		35,162		-
Décrease in accruéd expenses		(3,698)		(2,340)
Net cash provided from operating activities		109,649		12,529
Cash Flows From Investing Activities:  Distributions received from limited partnership	· • • • • • • • • • • • • • • • • • • •	24,549	÷ .	13,968
Cash Flows From Financing Activities:		4		
Capital contribution		27,300		9,738
Dividends paid to parent	•	(17,311)		(13,968)
Reserve the second of the seco	. <del>- 1</del>	2 12 12 12 12 12 12 12 12 12 12 12 12 12		(13,900)
Net cash provided from (used in) financing	1. " t	13 %.		
activities and the second activities and the second activities	$(s_4^{j+1})_{4\leq j\leq k}$	9,989		(4,230)
ว ที่มีการจาก การทำกับ การทำการทำการจาก การทำการที่ การทำการที่ เป็นการทำการที่ เป็นเป็น เป็นเป็น เป็นเป็น เป็		-) (		
Net Increase in Cash and Cash Equivalents		144,187		22,267
Cash and Cash Equivalents - Beginning	£. ; · · ·	61,645		39,378
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Cash and Cash Equivalents - Ending	<u> </u>	205,832	\$	61,645
Schedule of Noncash Financing Act				
Noncash capital contribution	\$	27,300	\$	9,738

See accompanying notes to financial statements

#### NOTES TO FINANCIAL STATEMENTS OCTOBER 31, 2010 AND 2009

#### Note 1 - Nature of Business and Significant Accounting Policies

#### **Nature of Business**

Callahan Financial Services, Inc. ("the Company"), was incorporated on March 13, 1987, for the purpose of serving as the general partner (with an initial 15 percent ownership interest) in Callahan Credit Union Financial Services LLLP ("the Partnership" or "CUFSLP," see Note 3). The Partnership was organized to serve as the administrator of the Trust for Credit Unions ("the Trust"), a diversified management investment company for investment by state and federally chartered credit unions. In addition to serving as the general partner of the Partnership, the Company acts as the distributor of the units of the portfolios of the Trust. The Company is a wholly owned subsidiary of Callahan & Associates, Inc.

In addition to the reimbursed operating expenses, another source of revenue for the Company is its equity interest in the earnings and losses of the Partnership. The primary source of revenue for the Partnership is an administration fee paid by the Trust.

#### **Administration Fees**

The Partnership earns a fee for its service as administrator of the Trust for Credit Unions. Per the Trust for Credit Unions prospectus, administration fees as a percentage of the portfolio average daily net assets are as follows: 0.10% for the Money Market Portfolio; 0.05% for the Ultra-Short Duration Government Portfolio; and 0.05% for the Short Duration Portfolio.

Effective February 1, 2009, CUFSLP voluntarily agreed to limit its administration fee with respect to the Money Market Portfolio to 0.05% of the first \$300 million of average daily net assets, 0.04% of the next \$700 million of average daily net assets, 0.03% of the next \$1 billion of average daily net assets, and 0.02% of average daily net assets over \$2 billion. From July 1, 1997 to January 31, 2009, CUFSLP voluntarily agreed to limit its administration fees with respect to the Money Market Portfolio to 0.02% of the Portfolio's average daily net assets. The cumulative results of these actions resulted in fee waivers of approximately \$212,400 in 2010 and \$795,100 in 2009 related to the Money Market Portfolio.

#### NOTES TO FINANCIAL STATEMENTS OCTOBER 31, 2010 AND 2009

### Note 1 - Nature of Business and Significant Accounting Policies - Continued

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and the common and the common and grown from the common state of

#### Administration Fees - Continued

The administration fee for the Ultra-Short Duration Government Portfolio is paid at an annual rate of 0.05% of average daily net assets of the Ultra-Short Duration Government Portfolio of the Trust:

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The administration fee of the Short Duration Portfolio is paid at an annual rate of 0.05% of the average daily net assets of the Short Duration Portfolio of the Trust.

#### Administrator and a succession of the second second

BNY Mellon is the provider of key administrative services for the Trust, including custody, transfer agent and regulatory administration. Goldman, Sachs & Co.'s role is solely as an investment adviser to the Trust.

#### Basis of Presentation

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The Company's financial statements are prepared on the accrual basis of accounting, whereby, revenue is recognized when earned and expenses are recognized when incurred.

The Company is currently operating under the provisions of Paragraph (k)(1) of Rule 15c3-3 of the SEC Broker/Dealers operating under the provisions of Paragraph (k)(1) and are exempted from the requirement to make the reserve computations under Rule 15c3-3.

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#### NOTES TO FINANCIAL STATEMENTS OCTOBER 31, 2010 AND 2009

#### Note 1 - Nature of Business and Significant Accounting Policies - Continued

#### Income Taxes

The Company files a consolidated federal income tax return with its parent. Income taxes are based on an allocation calculated as if the Company was filing a separate tax return. In addition, the Company files a District of Columbia income tax return. During the years ended October 31, 2010 and 2009, the Company settled \$27,300 and \$9,738 of income taxes payable to its parent company, Callahan & Associates, Inc., by the parent contributing the payable to the Company as contributed capital.

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#### Investment and Earnings in Limited Liability Limited Partnership

The Company accounts for its investment in the limited liability limited partnership using the equity method. Under the equity method, the Company recognizes its respective percentage of earnings in the limited liability limited partnership.

When a general partner controls a limited partnership and the limited partners have certain rights, a sole general partner in a limited partnership would be presumed to control that limited partnership, and therefore, would be required to include the limited partnership in its consolidated financial statements, regardless of the extent of the sole general partner's ownership interest in the limited partnership unless the presumption of the general partner's control can be overcome.

Section 11.01 of the Amended and Restated Certificate and Agreement of Limited Partnership provides the limited partners with substantive rights in that a majority in interest of the limited partners has the right, upon thirty days prior written notice given to the general partner and all limited partners, to remove the general partner without cause. Company management asserts that the rights of the limited partners are substantive, and therefore, would overcome the presumption of control (and consolidation) by the sole general partner.

#### NOTES TO FINANCIAL STATEMENTS OCTOBER 31, 2010 AND 2009

#### Note 1 - Nature of Business and Significant Accounting Policies - Continued

#### Cash and Cash Equivalents

Cash and cash equivalents includes cash, deposits in financial institutions and highly liquid mutual fund investments. For these instruments, the carrying amount approximates fair value.

#### Reimbursements for Operating Expenses

and the contract of the second of the contract of the contract

Under the terms of the Certificate and Agreement of Limited Partnership, the Company's incurred operating expenses are reimbursed by the Partnership. The Company is required to reflect these reimbursements received for expenses incurred as revenue in the statement of income.

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#### Estimates | All and Annual probability of the state of th

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The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amount of revenues and expenses during the reporting period. Actual results could differ from those estimates.

#### Note 2 - Investment in Limited Liability Limited Partnership

to be the control of inventors to see growing by the best on the

The Company initially acquired a 15 percent interest in the Partnership for an investment of \$100. The Company continues to serve as the general partner to the Partnership, while the majority interest belongs to various credit unions and credit union service organizations that serve as limited partners. The net profits and losses of the Partnership are allocated among the partners in accordance with the terms of the Certificate and Agreement of Limited Partnership, as amended. Should the Partnership be terminated, net assets available for distribution will be distributed first in proportion to the partners' net capital accounts until such capital accounts have been reduced to zero and then to the partners in accordance with their respective participation percentages.

# NOTES TO FINANCIAL STATEMENTS OCTOBER 31, 2010 AND 2009

#### Note 2 - Investment in Limited Liability Limited Partnership - Continued

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Individual capital accounts are maintained for each partner of the Partnership. Earnings and losses of the Partnership are generally allocated among the partners as follows: A) general partner - 15%; B) Class A limited partners - 80%; and C) Class B limited partner - 5%. However, the terms of the Certificate and Agreement of Limited Partnership, as amended, through July 2008, preclude allocating any furtner losses to a partner or class of partners once the partner's capital account reaches zero, as long as another partner or class of partners maintains a positive capital balance. In accordance with partnership dividend policy, all net income in excess of those allocated to recover partner capital contributions are distributed as dividends to the partners consistent with their partnership interests. These allocations are in accordance with Section 704(b) of the Internal Revenue Code. The Partnership will not be making a distribution related to 2010.

The first was his group of first of the more and growing of

During fiscal year 1991 and in accordance with the approval of the Class A limited partners, Callahan & Associates, Inc. purchased the Class B limited partner's interest in the Partnership. This interest was purchased for its original face value of \$10,000 from the original Class B limited partner. This Class B interest was contributed to the Company and increased its total partnership interest in the Partnership to 20 percent. The Company owns both general partner and limited partner interests.

The Company accounts for its investment in the Partnership using the equity method of accounting. Under the equity method of accounting, the investment is recorded at its initial cost and is increased or decreased for the Company's share of the subsequent earnings or losses of the Partnership, as specified in the Certificate and Agreement of Limited Partnership, as amended, and is decreased by distributions received. The Company's share of losses is limited to the amount of its investment, as long as another partner or class of partners maintains a positive capital balance. The amounts reported in the accompanying financial statements reflect this allocation method.

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### NOTES TO FINANCIAL STATEMENTS OCTOBER 31, 2010 AND 2009

#### property ( be exist a constant of the second Note 2 - Investment in Limited Liability Limited Partnership - Continued

The Partnership's condensed balance sheets as of October 31, 2010 and 2009, and condensed statements of income for the years ended October 31, 2010 and 2009, are as follows:

#### **Condensed Balance Sheets**

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	was a second and a second and	Octob	per 31,
$_{i}$ $\sim N^{2/3}$		2010	2009
A	Assets:		
	Cash, cash equivalents and certificates of deposit	\$ 393,496	\$ 1,141,083
	Loan receivable	151,800	•
	Investment in loan participations	1,923,477	1,951,084
	Investment in limited liability company	475,000	370,000
	Other receivables and prepaids	65,546	75,205
	Control of the Contro	A Maria	
The second of the second	the control assets and the second of the control of	<u>\$ 3,009,319</u>	<u>\$ 3,537,372</u>
		· Strate	
<b> </b>	liabilities:		
** ***	Accrued expenses and accounts payable	\$ 204,275	\$ 209,529
- H (1869) - 1	Distributions navable		122,743
		and the second s	
	Total liabilities	204,275	332,272
			,
	Partners' Capital:		
THE RESERVE TO	General partner		100
	Class A limited partners and the state of th	2,805,044	3,195,000
	Class B limited partner		10,000
August Herry John	of 🔰 is the first of the first of the control of t		
and the second second	Total partners' capital	2,805,044	3,205,100
	A Commence of the Commence of	1 - 1 - 1 - 1 - 1 - 1 - 1 - 1 - 1 - 1 -	
	Total liabilities and partners' capital	\$ 3,009,319	<b>\$</b> 3,537,372
:			

and the state of t

### NOTES TO FINANCIAL STATEMENTS OCTOBER 31, 2010 AND 2009

#### Note 2 - Investment in Limited Liability Limited Partnership - Continued

# Condensed Statements of Income

and the first of the control of the

the engine Made of the control of	no minimum mad primi provincia. Transportante	Year Ended October 31,		
		2010	2009	
Revenues Expenses	and the state of t	\$ 643,844 1,043,900	\$ 1,091,338 968,595	
Net income (loss)		<u>\$ (400,056)</u>	\$ 122,743	

#### Note 3 - Related-Party Transactions

The Company shares office space with and obtains clerical support from its parent, Callahan & Associates, Inc., which charges the Company for these costs based on an expense-sharing agreement. Under the terms of the Certificate and Agreement of Limited Partnership, the majority of expenses charged to the Company by Callahan & Associates, Inc. and incurred by the Company, were reimbursed by the Partnership. The Company is required to reflect reimbursements received for expenses incurred as revenue in the statements of income. Revenue and expenses recorded relating to the reimbursement of expenses by the Partnership under the terms of this agreement for the years ended October 31, 2010 and 2009, were \$618,156 and \$566,041, respectively. The Partnership also pays regulatory compliance costs incurred by the Company in fulfilling its responsibility as general partner of the Partnership.

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The Company had funds on deposit with the NIH Federal Credit Union, a limited partner of the Partnership, totaling \$185,915 and \$41,756 as of October 31, 2010 and 2009, respectively. The Company had investments in Goldman, Sachs & Co. mutual funds of \$19,917 and \$19,889 at October 31, 2010 and 2009, respectively. The Company had accounts receivable due from the Partnership of \$29,442 and \$19,904 at October 31, 2010 and 2009, respectively. The Company had accounts payable due to the Partnership of \$35,162 and \$-0- at October 31, 2010 and 2009, respectively.

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#### NOTES TO FINANCIAL STATEMENTS OCTOBER 31, 2010 AND 2009

#### Note 4 - Net Capital Requirements

As a broker-dealer, the Company is subject to the regulatory capital requirements set forth by the Securities and Exchange Commission Uniform Net Capital Rule. This rule requires the maintenance of minimum net capital, as defined. As of October 31, 2010 and 2009, the Company's net capital totaled \$151,817 and \$39,094, respectively, which is in excess of its required capital of \$5,000. Additionally, under this rule, "aggregate indebtedness," as defined, cannot exceed 1,000 percent of net capital. The Company's percentage of aggregate indebtedness to net capital was 35% and 57% at October 31, 2010 and 2009, respectively.

#### Note 5 - Subsequent Events

Management has performed an analysis of the activities and transactions subsequent to October 31, 2010 to determine the need for any adjustments to and/or disclosures within the audited financial statements as of and for the year ended October 31, 2010. Management has performed their analysis through December 29, 2010, which is the date the financial statements were available to be issued.

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SUPPLEMENTARY INFORMATION

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#### COMPUTATION OF NET CAPITAL FOR BROKERS AND DEALERS PURSUANT TO RULE 15c3-1 UNDER THE SECURITIES EXCHANGE ACT OF 1934 OCTOBER 31, 2010

TOTAL STOCKHOLDER'S EQUITY QUALIFIED FOR NET CAPITAL	\$ 192,819
DEDUCTIONS AND/OR CHARGES	
Nonallowable assets:	
Investment in and receivable affiliates, subsidiaries, and	
associated partnerships	37,442
Other assets	 3,162
Total deductions and/or charges	40,604
Net capital before haircuts on security positions	 152,215
HAIRCUTS ON SECURITIES	
Trading and investment securities:	
Other securities	 398
NET CAPITAL	\$ 151,817

### TOTAL AGGREGATE INDEBTEDNESS 53,617

MINIMUM NET CAPITAL REQUIRED (6-2/3% of aggregate indebtedness of \$5,000 minimum) **EXCESS NET CAPITAL** 

5,000

EXCESS NET CAPITAL AT 1000% OF AGGREGATE INDEBTEDNESS

COMPUTATION OF BASIC NET CAPITAL REQUIREMENT

146,455

146,817

PERCENTAGE OF AGGREGATE INDEBTEDNESS TO NET CAPITAL

35%

There are no material differences between the above computation and the computations included in the Company's corresponding unaudited Form X-17a-5 filing.

**NET CAPITAL** 

AGGREGATE INDEBTEDNESS

#### COMPUTATION FOR DETERMINATION OF RESERVE REQUIREMENTS FOR BROKERS AND DEALERS PURSUANT TO RULE 15c3-3 UNDER THE SECURITIES EXCHANGE ACT OF 1934 OCTOBER 31, 2010

Callahan Financial Services, Inc. ("the Company") is exempt from the provisions of Rule 15c3-3 under the Securities Exchange Act of 1934 ("the Rule"), in that the Company's activities are limited to those set forth in the conditions for exemption appearing in Paragraph (k)(1) of the Rule.

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Board of Directors Callahan Financial Services, Inc. Washington, D.C.

In planning and performing our audit of the financial statements of Callahan Financial Services, Inc. ("the Company"), a Delaware corporation, as of and for the year ended October 31, 2010, in accordance with auditing standards generally accepted in the United States of America, we considered the Company's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we do not express an opinion on the effectiveness of the Company's internal control.

Also, as required by Rule 17a-5(g)(1) of the Securities Exchange Commission ("SEC"), we have made a study of the practices and procedures followed by the Company including consideration of control activities for safeguarding securities. This study included tests of such practices and procedures that we considered relevant to the objectives stated in Rule 17a-5(g) in making the periodic computations of aggregate indebtedness (or aggregate debits) and net capital under Rule 17a-3(a)(11) and for determining compliance with the exemptive provisions of Rule 15c3-3. Because the Company does not carry securities accounts for customers or perform custodial functions relating to customer securities, we did not review the practices and procedures followed by the Company in any of the following:

- 1. Making quarterly securities examinations, counts, verifications, and comparisons and recordation of differences required by Rule 17a-13.
- 2. Complying with the requirements for prompt payment for securities under Section 8 of Federal Reserve Regulation T of the Board of Governors of the Federal Reserve System.

The management of the Company is responsible for establishing and maintaining internal control and the practices and procedures referred to in the preceding paragraph. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of controls, and of the practices and procedures referred to in the preceding paragraph, and to assess whether those practices and procedures can be expected to achieve the SEC's above-mentioned objectives. Two of the objectives of internal control and the practices and procedures are to provide management with reasonable but not absolute assurance that assets for which the Company has responsibility are safeguarded against loss from unauthorized use or disposition and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in conformity with generally accepted accounting principles. Rule 17a-5(g) lists additional objectives of the practices and procedures listed in the preceding paragraph.

#### **DOEREN MAYHEW**

Because of inherent limitations in internal control and the practices and procedures referred to above, error or fraud may occur and not be detected. Also, projection of any evaluation of them to future periods are subject to the risk that they may become inadequate because of changes in conditions or that the effectiveness of their design and operation may deteriorate.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a deficiency, or combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those responsible for oversight of the Company's financial reporting.

A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the Company's annual or interim financial statements will not be prevented or detected on a timely basis.

Our consideration of internal control was for the limited purpose described in the first and second paragraphs and would not necessarily identify all deficiencies in internal control that might be material weaknesses. We did not identify any deficiencies in internal control and control activities for safeguarding securities that we consider to be material weaknesses, as defined above.

We understand that practices and procedures that accomplish the objectives referred to in the second paragraph of this report are considered by the SEC to be adequate for its purposes in accordance with the Securities Exchange Act of 1934 and related regulations, and that practices and procedures that do not accomplish such objectives in all material respects indicate a material inadequacy for such purposes. Based on this understanding and on our study, we believe that the Company's practices and procedures were adequate at October 31, 2010, to meet the SEC's objectives.

This report is intended solely for the information and use of the Board of Directors, management, the SEC, the Financial Industry Regulatory Authority (FINRA), and other regulatory agencies that rely on Rule 17a-5(g) under the Securities Exchange Act of 1934 in their regulation of registered brokers and dealers, and is not intended to and should not be used by anyone other than these specified parties.

DOEREN MAYHEW

December 29, 2010

Troy, Michigan